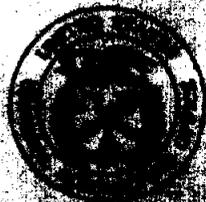


May 1988

AGRICULTURAL
TRADE
NEGOTIATIONS

Initial Phase of the
Uruguay Round



042301

**National Security and
International Affairs Division**

B-230527

May 5, 1988

The Honorable E (Kika) de la Garza, Chairman
Committee on Agriculture
House of Representatives

The Honorable Patrick J. Leahy, Chairman
Committee on Agriculture, Nutrition, and Forestry
United States Senate

As requested by the Committees, we have been monitoring the multilateral trade negotiations in Geneva with respect to liberalizing agricultural trade. This report summarizes our work through March 1988. During the first full year of the present Uruguay Round of negotiations, all major participants in the Negotiating Group on Agriculture of the General Agreement on Tariffs and Trade (GATT) submitted proposals for liberalizing agricultural trade. This report (1) addresses the structure of the negotiating process, (2) discusses the U.S. proposal and those of the other major participants¹ and reactions to the proposals, and (3) provides some preliminary observations on progress made in the negotiations to date.

The new round of multilateral trade negotiations within the GATT was launched by a ministerial level meeting of government representatives in Punta del Este, Uruguay, in September 1986. The Ministerial Declaration recognized the urgent need to reduce the uncertainty, imbalances, and instability in world agricultural markets.

The trade negotiations have been broken down into 14 negotiating groups. The work on agricultural trade issues is in the Negotiating Group on Agriculture and is guided by a plan calling for two phases of negotiations. The initial phase, during which countries identified major problems and their causes and submitted proposals, was essentially completed by the end of 1987. The second phase, which involves actual negotiations on the various proposals, began in January 1988 and has no scheduled completion date. A "mid-term" review meeting at the ministerial level has been scheduled for December 1988 in Montreal, Canada. According to the U.S. Chief Agriculture Negotiator, the United States is advocating that the outcome of the second phase should be a "framework agreement on agriculture and on any other appropriate areas."

¹Proposals were submitted by the European Community; the Cairns Group, a group of 13 countries considering themselves to be fair traders in agriculture (see p. 3); Canada, a Cairns Group member; the Nordic countries (Finland, Iceland, Norway, and Sweden); and Japan.

Other Proposals

The European Community submitted its proposal in October 1987, 2 months earlier than originally anticipated. It called for a gradual reduction in agricultural support and for short-term emergency measures to reduce surpluses in the grain, dairy, and sugar sectors. Together, the U.S. and Community proposals define the parameters for the negotiations. The Cairns Group² and Canadian proposals were also submitted in October. While both proposals were largely supportive of the U.S. proposal, the former has been characterized as a compromise proposal, since it addressed both the long-term concerns of the United States and the short-term concerns of the Community. The Nordic and Japanese proposals, submitted in December 1987, called for reduced export subsidies. The Nordic proposal called for reduced market access restrictions; the Japanese proposal called for improved rules on market access. The Japanese proposal asked that the special characteristics of agriculture within countries be taken into account.

Domestic Reactions to U.S. Proposal

The support of the major agricultural commodity groups within the United States will be a key factor in obtaining congressional approval of any negotiated agreement. Implementation of the U.S. proposal as presented in Geneva would likely affect all commodity groups to some degree, depending on the type and/or amount of government support the group currently receives. Highly protected commodities, such as dairy products and sugar, would likely be most affected by any agreement that is reached.

Several commodity and farm group representatives believed the U.S. proposal to be a good negotiating strategy because it sought the optimal scenario and a good first step since it galvanized attention. However, some noted that it was neither realistic nor feasible because it was improbable that other countries, especially those in the European Community, would dismantle their domestic support programs and eliminate all trade-distorting policies. The commodity and farm group concerns included the use of the aggregate negotiating approach (whereby all policies and programs affecting all commodities would be discussed and negotiated as a package), the use of the PSE as a measuring tool, and the use of decoupled payments to provide farmers with a safety net.

²Established in Cairns, Australia, in August 1986, the Cairns Group of "fair traders in agriculture" consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

Cairns Group proposal. U.S. officials have noted that it will be less painful, both politically and economically, if all countries agree multilaterally to reform their agricultural systems. They also note that, if each country attempts to reduce the costs of its domestic agricultural programs alone, it will entail greater hardships.

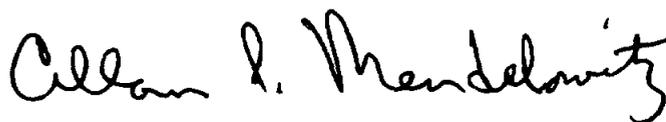
The supply-demand situation for several bulk commodities actually improved during the last year, i.e., surpluses have decreased, so there is the possibility that the movement toward a multilateral agreement may decrease as individual GATT members see lessened costs of their domestic agricultural support programs. To the extent that the export situation improves for the United States and for other GATT members, there will be less incentive to agree to any multilateral solution.

Views of Agency Officials

This report was reviewed by program-level officials at OUSTR and at USDA, including both the Foreign Agricultural Service and the Economic Research Service, and by the Chief Negotiator for Agriculture. They told us that overall it fairly represented the facts. They noted several concerns and suggested several clarifications which we incorporated into the report where appropriate.

This is the first of several briefing reports we will be issuing during the course of the negotiations, which are expected to continue at least through 1991. Appendices I through V contain a detailed discussion of our review.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of issue. At that time, we will send copies to cognizant congressional committees and to other interested parties and will make copies available to others upon request. If you have questions on this report, I can be reached on 275-4812.



Allan I. Mendelowitz
Senior Associate Director

Abbreviations

APAC	Agricultural Policy Advisory Committee
ATAC	Agricultural Technical Advisory Committee
CTA	Committee on Trade in Agriculture
EC	European Community
EEP	Export Enhancement Program
EPC	Economic Policy Council
ERS	Economic Research Service
FAS	Foreign Agricultural Service
GNG	Group of Negotiations on Goods
GATT	General Agreement on Tariffs and Trade
MTN	multilateral trade negotiations
OECD	Organization for Economic Cooperation and Development
OUSTR	Office of the U.S. Trade Representative
PSE	Producer Subsidy Equivalent
TDE	trade distortion equivalent
TPRG	Trade Policy Review Group
TPSC	Trade Policy Staff Committee
USDA	U.S. Department of Agriculture

these rising costs have been instrumental in bringing the EC to the negotiating table with respect to agricultural trade issues.

The U.S.-EC "subsidy war" has also been costly to other countries, including such major agricultural traders as Australia, Canada, and Argentina. It has resulted in lower world prices, thereby causing reductions in these countries' foreign exchange earnings. The Cairns Group, of which Australia, Canada, and Argentina are key members, has been a positive force in pushing toward a multilateral agreement for liberalizing trade in agriculture.

There appears to be a unique opportunity at this time for using a multilateral forum for liberalizing agricultural trade. U.S. and EC domestic agricultural support programs were estimated at about \$25 billion each for 1986, not including amounts expended by U.S. states or individual EC member countries. Consequently, budgetary pressures are mounting for both the United States and EC countries¹ and, while the EC ministers of agriculture had been primarily responsible for agricultural trade negotiations in the past, EC finance and trade ministers may be more influential in the present round of negotiations. Their concerns with the national economies, rather than just the agricultural sectors, of their respective countries, may provide strong incentive for eliminating, or at least reducing, agricultural support programs. Statements by world leaders during the last 2 years, including those made at the Venice Summit in June 1987, showed a commitment to agricultural trade reform not evident in the past.

Implications of Reform for U.S. Domestic Programs

From their inception, agricultural trade rules within the GATT were adjusted to fit domestic programs of various countries, especially those of the United States. The United States, however, is now taking the lead in calling for fundamental changes in the world trading system as it relates to agriculture. In calling for the elimination of all direct and indirect subsidies that distort agricultural trade and all import barriers, the United States, in essence, has put all its domestic support programs on the negotiating table.

The Uruguay Round is the first round of trade negotiations in which fundamental adjustments in domestic agricultural programs are being

¹It should be noted that the pressures for substantial agricultural reform vary from country to country within the EC. While the United Kingdom has been pushing for reducing the costs of EC support programs, other countries, especially Germany, have been much less eager to do so, given the disruptive effect such a reduction would have on inefficient producers in those countries.

economists and agricultural trade analysts. We attended USDA's 1987 Agriculture Outlook Conference, the 1987 annual meeting of the International Agricultural Trade Research Consortium, and a seminar on agricultural issues in the Uruguay Round sponsored by the Center for International Business and Trade, School of Business Administration, Georgetown University.

We reviewed all proposals submitted in the Negotiating Group on Agriculture. We interviewed GATT officials and representatives of U.S. and foreign missions to the GATT to assess foreign reaction to the U.S. proposal. We interviewed U.S. administration officials and reviewed Oustr and USDA documents to assess U.S. reaction to the other GATT members' proposals. To assess the reactions of domestic farm and commodity groups to the U.S. proposal, we spoke with representatives from each of the nine advisory committees representing various commodity sectors as well as national farm organizations.

To determine how the U.S. proposal was developed and to assess the U.S. negotiating position, we interviewed officials from USDA and Oustr and reviewed pertinent documents. We also spoke with officials from the Departments of Commerce, State, and Treasury and the Office of Management and Budget, all of whom are involved in the interagency process for formulating negotiating policy.

OECD also addressed the commitment to agricultural trade reform at a ministerial meeting in May 1987. An OECD communique stated that the long-term objective of agricultural reform was to allow market signals to influence agricultural production. It called for reducing guaranteed prices and other types of production incentives and replacing them with direct income supports not tied to production. It recognized that achieving the long-term objective would require time but stressed that reform should start without delay.

At the Venice Summit in June 1987, the seven leaders reaffirmed the commitment to agricultural trade reform set out in the OECD communique. To enhance the climate for the GATT negotiations, the declaration called for countries to refrain from actions that would stimulate agricultural production, increase protectionism, or destabilize world markets.

Structure of the GATT Negotiating Process

The Ministerial Declaration adopted by GATT members at Punta del Este established the Group of Negotiations on Goods (GNG) to carry out the negotiations. The GNG has established the various negotiating groups, developed their negotiating plans, coordinated their work, and supervised the progress of the negotiations.

There are 14 negotiating groups, including one for agriculture. Several of these groups could affect the agriculture group, including the groups on tariffs, non-tariff measures, tropical products, subsidies, and natural resources. According to the U.S. ambassador to the MTN in July 1987, it was too early in the negotiations to determine to what extent these groups would become involved in agriculture issues. The ambassador stated that the United States wanted the flexibility to discuss agriculture issues in these other groups.

Negotiating Group on Agriculture

There are no permanent country representatives to the Negotiating Group on Agriculture; membership is open to any participant in the Uruguay Round. The Netherlands' Director-General of Agriculture, formerly chairman of the CTA, is the chairman of the group. He schedules meetings with the approval of the GNG. The meetings have been scheduled based on the cycle established by the GNG for the first round of meetings. This calls for each of the 14 negotiating groups to meet sequentially; after each group has met, the cycle starts over. U.S. officials stated that this arrangement has not affected the progress of the group. They believe that the GNG role will diminish as the negotiations proceed.

According to the U.S. agriculture counselor in Geneva, the February meeting dealt primarily with procedural matters; for example, the chairman of the group was appointed and understanding was reached that the four efforts to be undertaken during the initial phase could be done concurrently.

The meeting in May involved discussions of agricultural trade problems and their causes and principles for governing world agricultural trade. Several delegations submitted papers addressing these two areas.

At the July meeting, the United States presented its proposal for eliminating all subsidies and market access restrictions that affect agricultural trade. U.S. officials believe the proposal provided momentum and focus to the negotiations. An official with the agriculture division of the GATT stated that the submission of the U.S. proposal had effectively "pulled the carpet" from under the EC and other groups who wanted slower negotiations and had removed the danger that discussions of problems and their causes could slow down the negotiations.

In October, the EC, Canada, and the Cairns Group submitted their proposals for reforming world agricultural trade. The Cairns Group and Canadian proposals had objectives similar to those of the United States, but there were major differences between the EC and U.S. proposals. Analyses of proposals are provided in appendix III.

At the final meeting in December, the Nordic countries submitted their proposal and an informal group of importing developing countries presented papers highlighting their objectives and concerns. Japan submitted its proposal later in December. The second phase of the negotiations began with a February 1988 meeting at which the United States submitted papers on health and sanitary regulations, aggregate measures of support, and decoupled payments. Other GATT members are likely to submit technical papers at subsequent meetings this year.

Meetings of Other Negotiating Groups

The other negotiating groups have met several times since the group meetings got underway in January 1987. According to an OSTR official, as of March 1988, the United States had submitted formal proposals in the services, intellectual property, and tropical products groups. In other groups, specifically, those for tariffs and non-tariff measures, the United States has submitted papers on "modalities," i.e., papers on how

Proposals to Liberalize Agricultural Trade

The proposal submitted to the Negotiating Group on Agriculture by the United States in July 1987 called for the elimination of all market access restrictions and subsidies that distort trade. The EC proposal, while calling for a gradual reduction in agricultural support, also called for short-term emergency measures in the grain, dairy, and sugar sectors. Together, the U.S. and EC proposals defined the parameters for the negotiations. While both the Cairns Group and Canadian proposals were largely supportive of the U.S. proposal, the former has been characterized as a compromise proposal since it addressed both the long-term concerns of the United States and the short-term concerns of the European Community. The Nordic and Japanese proposals called for reduced export subsidies. In addition, the Nordic proposal called for reduced market access restrictions and the Japanese proposal called for improved rules on market access. The Japanese proposal asked that the special characteristics of agriculture within countries be taken into account.

U.S. Proposal

In a statement of July 6, 1987, the President noted that at the heart of the U.S. proposal was "the elimination, over a ten year period, of all export subsidies, all barriers to each other's markets (including tariffs and quotas), and all domestic subsidies that affect trade." Farm policies that provide payments to farmers without affecting pricing or production decisions (decoupled payments) and bona fide food aid would not be required to be eliminated. Also, worldwide food health regulations would be harmonized to prevent them from being used as non-tariff barriers. In announcing the ambitious proposal, the President spoke of his commitment "to achieve the goal of free agriculture markets around the world by the year 2000."

Development of U.S. Proposal

Under the general policy direction of the Under Secretary of Agriculture for International Affairs and Commodity Programs, the Agriculture Division staff at OUSTR and the International Trade Policy Division staff of the Foreign Agricultural Service (FAS) at USDA worked out the details and developed the draft of the U.S. proposal. This draft was presented first to the interagency Trade Policy Staff Committee (TPSC), composed of senior-level career experts, and then to the Trade Policy Review Group (TPRG), at the Under Secretary level.¹ We were told that other

¹The TPSC and TPRG consist of representatives from OUSTR (chairman), the Departments of Agriculture, Commerce, Defense, Energy, the Interior, Justice, Labor, State, Transportation, and Treasury, Council of Economic Advisers, Office of Assistant to the President for National Security Affairs, Office of Management and Budget, and U.S. International Development Cooperation Agency.

income supports, and other programs (e.g., crop insurance, credit, research, and transport, etc.) to be included. The proposal called for all agricultural commodities, including food, beverages, forest products, and fish and fish products to be discussed in the negotiations.

The second stage of negotiations would involve the formulation of implementation plans by GATT member countries. Each country's plan would identify specific policy changes over a 10-year period so as to achieve their commitment to reduce overall support. Governments would generally "retain flexibility in the choice of the means to fulfill their commitments." In negotiating implementation plans, governments could claim credit for measures adopted since the Punta del Este Ministerial Declaration that had contributed to reducing the imbalance between production and demand and that had enhanced the objectives of the negotiations.

Initial Reactions to U.S. Proposal

In July 1987, in order to assess the initial reactions to the U.S. proposal, we spoke with U.S. and GATT officials in Geneva; delegates from Argentina, Australia, Canada, France, Germany, and Japan, a delegate from Finland representing the Nordic countries, and a delegate representing the EC. The delegates noted that their reactions were preliminary and that their respective countries would be analyzing the U.S. proposal to determine its implications.

Ambitious, courageous, extreme, and radical were terms used to describe the U.S. proposal. No representative we spoke with dismissed the proposal out of hand and the U.S. Ambassador to the MTN in Geneva characterized some reactions as being "ecstatic." He also stated that, in general, the reactions were at least as positive as hoped for. At the same time, however, he noted that other countries believed that the United States was pushing for too much too fast. Although the head of the EC delegation to the GATT had stated that the U.S. proposal was overly ambitious, he reportedly stated that it should not be rejected out of hand.

The initial reactions to the U.S. proposal centered on the following issues.

- Elimination of all subsidies and market access restrictions.
- Use of PSES.
- Decoupled payments.
- Lack of special and differential treatment for developing countries.

that for the Nordic countries, agriculture was the only means of employment in the rural areas and it must be protected to remain a viable industry. He did not believe that a further restructuring of agriculture was possible for the Nordic countries.

Officials from Argentina, Australia, and Canada, three members of the Cairns Group, expressed support for the U.S. proposal, viewing it as a good starting point and agreed with its comprehensive approach. One official noted, however, that there was some question as to whether the elimination of all subsidies was practical.

Use of Producer Subsidy Equivalents

The concept of the PSE, adopted by the OECD, compares government assistance to agriculture across commodities and across countries.⁵ Initially, the questions of other GATT members centered on how PSEs were calculated and how they would be used during the negotiations. Several foreign delegates expressed concern that there might be technical problems with the use of the PSEs, such as accounting for the effects of foreign currency fluctuations. The EC official noted, for example, that, it would be difficult to isolate the effects of currency fluctuation from changes resulting from a reduction of support. He noted it would also be difficult to define what was a subsidy affecting international trade and how to measure its effects in countries with different social systems. Although there was some concern over whether PSEs could be used as legally binding instruments, most officials we interviewed agreed that PSEs would be a useful way to measure and compare the various support programs.

One official from Japan stated that Japan did not agree with the concept of PSEs because it was difficult to see how the calculations would reflect the special characteristics of a country's agriculture. The Australian attache noted that while countries were going through the transition to a more liberalized trading environment, the way that PSEs were calculated and used would become very important. Officials from Argentina, Canada, and the GATT expressed concern that discussions over PSEs could slow down the negotiations. A GATT Agriculture Division official stated the concern that PSEs could become the focus of the negotiations rather than changes to the GATT rules for agriculture.

⁵It should be noted that USDA's Economic Research Service (ERS) has been improving the data base for the use of PSEs in the negotiations—expanding the work that was done by OECD by adding more countries and commodities to its analyses and updating the data base through 1986, as the data has become available. The ERS work concerning PSEs was updated in a summary published in May 1987. According to an ERS official, further updates are to be published during the second quarter of 1988.

Special and Differential Treatment for Developing Countries

The U.S. proposal did not provide for special and differential treatment for developing countries. USDA and OUSTR officials told us that, under the U.S. proposal, developing countries would benefit overall and thus would not need special treatment. In a more liberalized trading environment, these countries would enjoy better market access for their products and would not have to compete with unfairly subsidized exports. By allowing agricultural trade to become more influenced by market forces, these officials believed that natural comparative advantages would determine trade flows. Despite this reasoning, most foreign officials we spoke with believed that some type of special treatment would be necessary to ease developing countries through the transition.

The official from Australia, representing the views of the Cairns Group, whose membership includes several developing countries, questioned how the latter would make the transition from the current system to a market-oriented one. A phasing in of such reform over a period of time was suggested to avoid adversely affecting the development of a country's infrastructure or ability to foster new industries. Argentina's representative, while generally supportive of the U.S. proposal, stated that some countries which were not causing distortions in world agricultural trade would need some help. The Canadian official emphasized that there had to be some recognition of the need for special treatment for certain countries; however, he noted that some developing countries were as competitive as the United States or Canada in certain agricultural commodities. It was also recognized that provisions for special treatment for certain countries would need to be well defined.

U.S. officials believed that special and differential treatment would not become a major issue in the negotiations since some developing countries realized that they would fare better if the developed countries removed all import barriers.

Other Issues

Another issue concerning the U.S. proposal was the lack of specific mention of how to improve GATT rules and disciplines affecting agricultural trade. The U.S. agricultural attache in Geneva told us that the proposal did not focus on rules because, if it was fully accepted, rewriting the GATT rules would be easy since there would be no subsidies or market access restrictions allowed. However, if the proposal were not accepted in full, rewriting the rules would become very important. An official from the Agriculture Division of the GATT stressed the importance of

the Negotiating Group on Agriculture and Japan submitted its proposal later that month. Also, an informal group of food importing developing countries joined together in presenting papers at the December 1987 meeting listing their objectives for the negotiations and highlighting concerns of some developing countries.

EC Proposal

The EC External Relations Commissioner stated that the aim of the EC proposal was to “cleanse” the agricultural sector and “to stop the subsidy war.” It was seen as a response to the U.S. proposal to eliminate all farm subsidies by the year 2000. The proposal noted that the “root problem” affecting world agricultural trade was the imbalance in supply and demand. While it essentially called for a gradual reduction in farm subsidies worldwide, it also called for special arrangements to deal with three problem sectors in the short term.

During the first stage, emergency measures would be taken in the grain, dairy, and sugar sectors to stabilize the world markets for those commodities. During the second stage, there would be a progressive and substantial decline in government support for farmers. The EC proposal also provided for aid to farmers as long as it would not produce unwanted effects on output. The proposal supported the concept of using a PSE-based measurement tool for negotiating a concerted reduction in supports and protection “provided it was suitably adjusted for use as a negotiating instrument.” It also included provisions for harmonizing health and sanitary regulations pertaining to animals and plant products.

The European Community issued a draft of its proposal in early October, two months earlier than expected. The Council of Ministers did not officially approve the proposal, but agreed to let the EC Commission submit it on its own authority.⁷ According to some observers, the proposal contained “something for everyone.” The vagueness and/or lack of clarity in the proposal is probably due in part to the desire to please the various member countries. Due to the lack of precision in the proposal, there have been varied interpretations of what precisely is meant by certain parts of it.

⁷The Council of Ministers of the EC is the final EC decision-making body and acts on EC Commission proposals. The ministers presiding depend on the issue involved. The EC Commission proposes legislation, implements EC policy, and manages the EC budget. It represents the EC in trade negotiations. It is composed of 17 Commissioners, 2 each from France, Germany, Italy, Spain, and the United Kingdom, and one each from the 7 other member states.

affecting trade or production, would be prohibited. Health and sanitary regulations would be harmonized to remove barriers to trade.

To phase down aggregate support levels, the proposal called for countries to develop schedules for reducing and eliminating trade distorting policies. A PSE-type measure of aggregate support would facilitate the phase-down.

Early relief measures would not be a substitute for reform or long-term measures. They would include a freeze on import restrictions and all export and production subsidies directly or indirectly affecting trade. The proposal also called for a political commitment to manage and, in a non-disruptive manner, release surplus stocks built up as a consequence of government support policies.

At the same meeting of the Negotiating Group on Agriculture, Canada submitted a proposal to set out its "views on the conduct of the negotiations on agriculture." The proposal noted Canada's conviction that a comprehensive approach encompassing all agricultural commodities and all trade-distorting measures was necessary for success. A major reduction in all trade-distorting subsidies and a major improvement in market access would be phased in over a 5-year period. A single measure which converted all access barriers, administered price systems, and trade-distorting subsidies would be used. Called a "trade distorting equivalent" (TDE), it would be based on the PSE measure but would omit those elements deemed to have a neutral impact on trade.

The Canadian proposal called for two stages. First, agreement would be reached on the policies to be included in the TDE, the base period for measuring reductions, the depth of the cuts, and the length of the phase-in period. Also, there would be a binding commitment not to introduce any new import barriers or trade-distorting measures. Second, countries would present their individual implementation plans. The proposal noted that it would be necessary "at an appropriate time to consider differential and more favorable treatment for developing countries..."

The U.S. Trade Representative and Secretary of Agriculture agreed with "much of the basic thrust" of the Cairns Group and Canadian proposals. They did, however, note some concern with the emphasis on short term measures. They indicated U.S. willingness to begin implementation of long term commitments in 1989 and in such a way as "to bring meaningful results immediately."

Building Domestic Consensus for the U.S. Proposal

The support of the major agricultural commodity groups will be a key factor in obtaining congressional approval of any negotiated agreement. Implementation of the U.S. proposal as presented in Geneva would likely affect all commodity groups to some degree. The impact would depend on many factors, including the type and/or amount of government support the commodity group currently receives. Highly protected commodities, such as dairy products and sugar, would likely be most affected by any agreement that is reached.

To obtain their views on the U.S. proposal and the progress of the Uruguay Round negotiations, we interviewed representatives from the nine Agricultural Technical Advisory Committees (ATACs): cotton, dairy, feedgrains, fruits and vegetable products, livestock, oilseeds, poultry and eggs, sweeteners¹, and tobacco. To gain a broader perspective for our review, we also spoke with representatives from three major farm groups (the American Farm Bureau Federation, National Farmers Union and National Grange), and with representatives of other commodity groups, agricultural policy analysts, and economists.

Advisory Committees

In addition to the 9 individual ATACs, an Agricultural Policy Advisory Committee (APAC) also provides advice and counsel to U.S. officials concerning negotiating objectives and bargaining positions. USDA and OUSTR officials have stated that they want the private sector to be involved in the negotiations. A senior USDA official believed that the advisory committee process has worked well and that the concerns of the various commodity groups have been heard by the Secretary of Agriculture and the U.S. Trade Representative. According to a USDA official, the advisory committee structure was a means for the administration to build support among domestic farm groups. While there appears to be no formal administration strategy for building support beyond working within this structure, USDA and OUSTR officials told us that high-level U.S. officials have been taking every opportunity to explain and promote the U.S. proposal to farm and commodity groups.

As noted in appendix III, before the U.S. proposal was submitted to the Negotiating Group on Agriculture in Geneva in July 1987, the APAC was briefed by the Secretary of Agriculture and the U.S. Trade Representative. The meeting with the APAC took place a few weeks before the U.S. proposal was submitted in Geneva. The proposal was presented to the

¹At the time of our interviews, the ATAC for the sweetener sector had not yet been established. However, we did interview representatives of the sweetener industry.

The sugar and dairy industry groups were fearful that their sectors would be “traded away,” i.e. that the United States would offer to eliminate key support programs for those commodities in exchange for concessions for other commodities. There was also concern that the United States would take unilateral action to eliminate its support programs while other countries continued to maintain theirs. Several commodity groups told us that they did not believe that the EC would eliminate all subsidies and supports. Some of the commodity/farm groups were skeptical whether all U.S. commodity groups would be willing to accept the U.S. proposal and predicted that the greatest resistance to such dramatic change in agricultural policies would come, not from other countries, but from U.S. commodity groups.

All the groups we spoke with expressed a desire to eliminate subsidies generally, but did not unanimously agree that all supports should be eliminated. Several groups indicated that, due to special circumstances associated with their commodities, they were unwilling or extremely reluctant to give up certain programs. There appeared to be a lack of understanding as to how implementation of the U.S. proposal would affect the various commodity groups. One group representative feared that implementation of the U.S. proposal could result in massive dislocations and another noted the importance of the proposal containing a sufficient “safety net.” No specific ideas were provided as to what would constitute a sufficient safety net, but several commodity group representatives noted that some process to assist the less efficient farmers would be needed. It was not clear from the views expressed whether or not decoupled payments would provide a sufficient “safety net.”

Specific Commodity Group Concerns

In the several months following submission of the U.S. proposal, commodity and farm groups had certain concerns and indicated that they had made these known to USDA and OUSTR officials. These concerns included the use of the (1) aggregate negotiating approach, (2) PSE as a measuring tool, and (3) decoupled payments to provide farmers with a safety net.

Aggregate Negotiating Approach

While the U.S. proposal called for an aggregate approach to the negotiations, meaning that all policies and programs affecting all commodities would be discussed and negotiated as a package, all groups did not appear to understand or accept this concept. Several groups indicated that they were special; one representative from the dairy industry

and farm groups are taking a wait-and-see attitude toward the negotiations. Despite some concerns, no commodity group appeared to want to undermine the position of the U.S. negotiators, so they have generally not sought the removal of certain programs from the negotiating table. According to a USDA official, while the dairy ATAC generally reacted favorably to the concept in the U.S. proposal that everything be put on the negotiating table, it expressed great concern that Section 22² not be given up unilaterally. They were assured by U.S. officials that this would not be the case and so have not publicly pressed the issue.

The commodity groups appeared to understand the importance of the negotiations to their future livelihood and indicated that they would be closely monitoring the progress of the negotiations. It appeared that until GATT members would actually begin to commit to certain actions, commodity groups would not have enough information to determine how they would be affected. Several groups told us that at that point, they would begin to make analyses and some strategic decisions.

Most commodity groups appeared to understand that implementation of any negotiated agreement would involve changes in domestic agricultural programs. Several commodity group representatives were willing to admit that, like all sectors, theirs would need to restructure and adjust to a liberalized trade environment. How competitive they would then be would depend on many factors, including geographic location and costs of production. Commodity and farm groups we spoke with made it clear that they would not wholeheartedly support the U.S. proposal until it became clear to them how they would fare under a liberalized trading environment.

Information on Effects of Liberalization Are Inconclusive

Commodity and farm groups we spoke with generally stated their belief that the United States would be competitive and could give up its support programs as long as other countries agreed to eliminate all of their trade-distorting policies and programs. A dairy representative told us that some dairy farmers would be competitive while others would not, depending on costs of production. A representative from the cotton ATAC stated that even with the absence of all subsidies and supports, the U.S. cotton industry would not be competitive because of lower labor costs in other producing countries. Despite generally optimistic views of the

²Section 22 refers to a provision in the Agricultural Adjustment Act of 1933, as amended, which authorizes the Secretary of Agriculture to advise the President of the necessity to impose import quotas if such are necessary to maintain domestic agricultural programs. Import quotas for dairy products are currently in force as a result of Section 22.

trade environment free of subsidies and supports, U.S. sugar producers would be competitive in the world market.

Several of the groups we interviewed noted that they did not have the resources to devote to such complex studies and would be interested to learn the results of studies conducted by USDA and/or other agricultural trade analysts.

USDA's Economic Research Service (ERS) is preparing to carry out studies to determine the effects on world agriculture from a complete removal of all policies that distort agricultural trade in developed countries. According to an ERS official, while ERS is examining changes in world prices, production, and trade patterns, it cannot yet provide detailed estimates of the effects of trade liberalization on the farm sector and the rural economy. Moreover, it would be extremely difficult to provide the level of detail required to estimate changes, for example, in the size and number of U.S. dairy farms following trade liberalization. One ERS official noted that, to produce more than generalized observations on the effects of trade liberalization, economists would need the details of a negotiated agreement. Despite the complexity of the analysis, this official believed that a substantive first look at the impacts could be available before the end of 1988, provided that the negotiators reach an early agreement on the direction of trade liberalization.

Agricultural trade analysts and economists have conducted several other studies attempting to determine the effects of trade liberalization. The International Agricultural Trade Research Consortium, a group of researchers from government, universities and the private sector, is looking into the effects of trade liberalization. Tyers and Anderson, Australian economists who prepared a study for the World Bank, have estimated what would happen to world prices and trade under several scenarios for agricultural trade liberalization. Resources for the Future has also sponsored research efforts. In addition, a number of other economists and agricultural trade policy analysts have been examining the crisis in agricultural trade. According to ERS, most studies so far seem to show that the greatest changes resulting from agricultural trade liberalization would occur in the commodity markets with the highest levels of support, namely, dairy, sugar, and meat. The information currently available, however, does not conclusively indicate how particular commodity groups in particular countries will fare in a liberalized trade environment.

features considered objectionable by the United States. One observer, who saw the U.S. proposal as inappropriate, noted that it would have been better had the United States sought to achieve more modest and, consequently, more realistic goals.

There is disagreement as to how much pressure the United States should be bringing to bear on the EC to continue negotiations on liberalizing agricultural trade. Some U.S. officials believe that the EEP, established in 1985, has been instrumental in bringing the EC to the bargaining table and that it must continue to be used to keep the EC at the table. Others believe that the increased use of the EEP has lessened the credibility of the United States, which, while calling for liberalization in its July 1987 proposal, has actually become more protectionist in its programs. In this regard, opinions vary as to whether the U.S. trade bill, if passed with some of the protectionist measures it now includes, will have a positive or negative effect on the negotiations. The threat of implementing a marketing loan program¹ for several bulk commodities, if there is no substantial progress in the multilateral negotiations, may well serve as an incentive for other GATT members to reach agreement with the United States because such a program would result in increased costs of their subsidy programs.

With respect to the role of Congress, the President's authority to submit agreements on nontariff measures for fast-track congressional approval, i.e., mandatory procedures for approval with deadlines, limited debate, and no amendments, expired in January 1988. If the President's authority is not extended, either through the trade bill or in separate legislation, the credibility of U.S. negotiators may be lessened.

Likely Contentious Issues in the Negotiations

Perhaps the greatest divergence between the U.S. and EC positions during the current round of negotiations is the U.S. desire for a long-term solution and the EC desire for short-term measures. Although the EC proposal speaks of a long-term reduction of supports worldwide, it appears that a short-term solution to the current difficulties in the grain, dairy, and sugar sectors is of primary concern. It appears that both the United States and the EC may have to make accommodations in this regard.

¹The marketing loan program, which now exists only for cotton and rice, was established as a result of the Food Security Act of 1985. It essentially works by allowing U.S. producers to sell at the world market price and then to be reimbursed by the U.S. government for the difference between the loan rate for that commodity and the world market price.

U.S. officials have noted that it will be less painful for the United States and other countries, both politically and economically, if all countries agree multilaterally to reform their agricultural systems. If each country attempts to reduce the costs of its domestic agricultural programs alone, it will entail greater hardships. It should be noted that the supply-demand situation for several bulk commodities actually improved during the last year, i.e., surpluses have decreased. Consequently, there is the danger that the movement toward a multilateral agreement may decrease as individual GATT members see increases in prices of several bulk commodities and lessened costs of their domestic agricultural support programs. To the extent that the export picture improves for the United States and for other GATT members, there will be less incentive to agree to any multilateral solution.

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Some agreement on short-term measures to alleviate difficulties in problem sectors could be made contingent on an agreement on long-term measures. This seems to be the thrust of the Cairns Group proposal.

Related to the above is the use of the aggregate approach, which is called for not only in the U.S. proposal but in other proposals as well. This approach is a departure from previous negotiations where there were requests and offers concerning specific commodities and specific countries. When it comes to implementing an agreement using the aggregate approach, detailed implementation plans will most likely be called for. It appears that at that point, a tendency will be for the negotiations to become bogged down with plans for reductions of support for specific programs in specific countries.

How any agreement is to be implemented will probably be the most difficult part of the current negotiations. The U.S. proposal calls for implementation plans to be drawn up by the various GATT members. Although the U.S. proposal calls for flexibility in this regard, it appears likely that the specific commodity groups in each country will closely examine what every other country is proposing to include and exclude in its plan for reducing its agricultural supports year by year. It is unclear how this process will unfold, but difficulties are likely. How various commodity groups in various countries will fare under partial liberalization of agriculture may be even more difficult to assess than under total liberalization. In this regard, any agreement reached in the Negotiating Group on Agriculture will have to include provisions for resolving disputes during the critical transition period.

Other issues yet to be resolved include the use of an aggregate measurement tool, possibly based on the PSE, the extent to which decoupled payments will win approval, and the extent to which developing countries are to receive special and differential treatment.

The Negotiations in Perspective

One political economist indicated that liberalization of agricultural trade is not likely to be achieved through the GATT process but is likely to occur during the next several years through individual countries pursuing policies that are more market-oriented. He points to steps taken by the United States, the EC, Canada, and Australia, all of which have lowered the amounts of support provided for various commodities and/or have taken acreage out of production.

Observations

The first year of negotiations in the Uruguay Round has ended, with all the major GATT players having submitted proposals for liberalizing agricultural trade. For the first time in the 40-year history of the GATT, its members are seriously discussing the reduction or elimination of domestic support programs affecting agricultural trade. It appears that the negotiations are proceeding at a reasonable pace and, in fact, at a quicker pace than in previous negotiations. There had been concern at the outset that the negotiations could be delayed by several GATT members, including Japan and the EC, which appeared least willing to consider radical changes for liberalizing agricultural trade. Those concerns have thus far proven unfounded, and negotiations have progressed on schedule. The most difficult part of the negotiations lie ahead, however, and many obstacles remain.

Views vary widely over the likelihood that the current round of negotiations will be successful in liberalizing agricultural trade and over the time frame for reaching some type of agreement. Many participants or observers of previous negotiations doubt whether the current round of negotiations will produce substantially better results. Others, however, point out the differences between the current and previous rounds, note the pressures on major players to reduce the costs of their domestic support programs, and see new opportunities for achieving positive results.

There is substantial disagreement over whether any sort of agreement with respect to liberalizing agricultural trade is likely before the end of 1988. That date is significant because a U.S. goal had been to achieve an "early harvest" in agriculture within 2 years. The United States has recognized the validity of concerns of other GATT members, especially the EC, that any agreement must include other areas in addition to agriculture. Notwithstanding, U.S. officials told us that, with respect to agricultural trade, they still hoped to persuade GATT members to agree to a framework agreement on general objectives and on a general methodology for achieving those objectives. It is clear that much has to be accomplished during 1988 to reach this goal.

Appropriateness and Credibility of the U.S. Negotiating Stance

With respect to the appropriateness of the U.S. proposal, most observers seem to agree that it was not only a bold but also a good first negotiating step. The proposal did, in fact, focus world attention and probably influenced all the other major GATT players to submit proposals by the end of 1987. Other observers, however, believe that the proposal was not realistic, and perhaps even encouraged the EC to submit a similarly unrealistic proposal because it appeared to call for market-sharing and other

likely competitiveness of U.S. agriculture under a liberalized trading environment, however, all groups, whether involved in the ATAC process or not, stated that there was a lack of available information concerning how their groups would fare under a scheme to liberalize world trade.

Certain sectors, such as sugar and dairy, are highly protected in the United States; consequently, it is generally perceived that they would likely be adversely affected should all subsidies and barriers be eliminated. However, a representative from the dairy sector was not willing to state definitively whether or not it would be competitive.

Most of the commodity and farm groups we interviewed had not conducted studies analyzing the impact of reducing or eliminating subsidies and import barriers on their sectors. They told us that they were not willing to commit resources for such studies while the issues were still theoretical and the outcome appeared questionable. An exception, however, was the sugar industry, which had attempted to determine how its sector would fare in the absence of all subsidies and supports. Sugar beet and cane producers, in resubmitting a section 301 petition³ against EC sugar subsidies, publicly noted that they would welcome an opportunity to compete in a world market in which there would be no sugar subsidies, supports, or quotas. They told us that, based on a study by a British economic research firm, they could be competitive in such an environment.

In March 1987, Landell Mills Commodities Studies, an economic research firm in England, produced a report using a structural model of the world sugar market. The report analyzed the effect that a complete absence of sugar price supports would have on world sugar prices. Using four different scenarios, it determined the likely equilibrium price of sugar while assessing how producers of corn sweeteners would fare in a more liberalized trading environment. Landell Mills concluded that eliminating distortions to world trade in sugar would cause the world price of sugar to rise. The industry believed that, although U.S. industry costs of production had been estimated to be 107 percent of the world price during the early 1980s, its costs of production had gone down since 1983 because of increased efficiency and the lower value of the dollar. Consequently, representatives of the sugar industry concluded that, in a world

³Section 301 refers to a provision of the Trade Act of 1974, as amended, under which Congress describes the President's discretionary authority to respond to unfair trade practices of foreign governments. The statute allows the private sector to petition the U.S. government to act in its behalf against unfair practices.

believed the dairy sector should not be subject to the multilateral negotiations. Other groups seemed to prefer the traditional request/offer method of negotiation, which would allow concessions to be made on a commodity by commodity basis. One commodity group would like a reciprocal type of arrangement, where the United States would give up a program of importance for one commodity in return for another country giving up a program or policy of equal importance for that same commodity. Another group voiced concern that if negotiations were conducted on an aggregate basis, U.S. officials would not focus on the group's best interests but would instead consider overall U.S. benefits.

Use of PSEs as a Measuring Tool

PSEs have been discussed in the Negotiating Group on Agriculture as a measurement tool for comparing the levels of government intervention in agriculture, across countries and commodities. Commodity groups did not understand how PSEs could measure the effect on trade from such programs as education, research, and irrigation, which they believed to be fundamental to the agricultural sector. Their concern reflected the fact that the PSE was more a measure of the income to farmers from domestic agricultural programs than of the amount of trade distortion that occurred from a particular program.

Decoupled Payments

While two groups accepted the idea of decoupled payments, others viewed it as welfare and did not believe it would be politically feasible. Although the intended effect of decoupled payments was to provide a safety net by maintaining a stable farm income and thereby helping farmers, the dairy industry, for example, did not believe that it would provide enough support. One group suggested that a means test would be necessary because not all farmers would need such payments during a transition period. Others expressed skepticism that such payments would not influence production since farmers, being farmers, would continue to produce rather than leave their land idle.

Commodity Groups Taking a Wait-And-See Attitude

The agricultural negotiations are still at an early stage, with the U.S. and EC proposals providing the parameters of the negotiating debate. The U.S. proposal, while clearly stating goals and objectives, is broad and vague and the ramifications for domestic commodity groups are theoretical at this point. Since the EC proposal differs substantially from the U.S. proposal, extensive negotiations will be needed to reach an agreement, not only between the United States and the EC but also among all the contracting parties to the GATT. For this reason, domestic commodity

APAC members who appear to have voiced no strong opposition to it. According to a USDA official, APAC members seemed to understand that no domestic support program could be off limits because other countries would then put their most important programs off limits as well.

In an attempt to keep the U.S. proposal closely held prior to the Geneva meeting, it was not presented to the ATACs beforehand, according to a USDA official. However, representatives of the ATACs were briefed on the U.S. proposal at meetings held subsequent to the July meeting in Geneva. The frequency of meetings has varied from ATAC to ATAC, but generally they are being held three or four times a year now that the current round of negotiations is underway. Representatives from several agricultural interest groups stated that the ATACs have provided good access to U.S. officials, but there were also complaints that membership on the ATACs is often political and that the clearance process required for membership was too lengthy, thus hampering the process.

The process for seeking private sector input for the current round of negotiations began several years ago. The former U.S. Trade Representative had requested all advisory committees to provide their views on what U.S. objectives should be for the upcoming negotiations. The APAC, along with the Advisory Committee for Trade Negotiations, which was authorized by the Trade Act of 1974 to provide overall policy advice on trade negotiations, submitted reports in 1985 voicing several concerns about the upcoming negotiations. In March 1986, the OUSTR, in conjunction with the Departments of Agriculture, Commerce, and Labor, held a meeting for all interested private sector advisors to review the preparatory steps being taken for the Uruguay Round. At Punta del Este, there was an Advisory Committee for Trade Negotiations delegation of 12 private sector representatives, including 3 representing agricultural interests.

Reactions to U.S. Proposal

Several commodity group/farm representatives we spoke with believed the U.S. proposal to be a good negotiating strategy, because it sought the absolute optimal scenario, and a good first step. However, some also noted that it was neither realistic nor feasible. They said it was not realistic because it was improbable that other countries, especially the EC, would dismantle their domestic support programs and eliminate all trade distorting policies. It was not feasible in the sense that they viewed it as politically impossible to eliminate all supports, both domestically and abroad.

The Nordic countries' proposal called for a reduction, but not elimination, of all direct and indirect subsidies as well as levels of import protection. It endorsed the aggregate approach for reducing levels of support but also called for immediate short-term measures to be taken by exporting countries to prevent an increase in excess supply. U.S. officials expressed concern that the proposal called for the short-term measures to be taken only by exporting countries. They noted that the crisis in agriculture was the result of measures taken by all countries, importers as well as exporters, and that action was required by all parties.

The Japanese proposal recommended reducing export subsidies and improving rules on market access while noting the need for taking into account the special characteristics of agriculture within each country. The proposal stressed the concerns of importing nations, including the need for food security. Each country should be allowed to develop its own agricultural sector. A U.S. official has characterized Japan as playing a "reactive" and "defensive" role in the trade negotiations. According to U.S. officials, the proposal contained nothing unexpected.

The papers submitted by importing developing countries in December 1987 highlighted several of their concerns. They stressed the importance of the agricultural sectors in those countries and sought special and differential treatment "consistent with their development, trade, and financial needs." They noted the necessity for improved GATT rules, but suggested several exceptions, including allowing a reasonable level of self-sufficiency. The papers noted the countries' vulnerable positions, and requested that implementation of any agreement reached be on a voluntary basis.

In the proposal, the EC appeared to make it clear that the two-price system⁸ of its Common Agriculture Policy was not negotiable. In a statement released October 26, the U.S. Trade Representative and the Secretary of Agriculture said that the proposal appeared to call for an "extension of the Community's highly managed agricultural system." Another objectionable feature in the proposal, according to U.S. officials, was the apparent call for increased protection for soybeans and non-grain feed ingredients through the withdrawal of tariff ceilings committed to in the GATT on those products. U.S. officials told us that one of their primary concerns with the EC proposal was that if the short-term measures as called for were to be agreed upon, then there would be less incentive for the EC and others to agree to the more important long-term liberalization of agricultural trade. Also, although the exact nature of the short-term measures was not specified, it appeared that some sort of market-sharing agreement was intended for the grain, sugar, and dairy sectors. Such market-sharing arrangements are contrary to U.S. market-oriented trade policies.

Proposals of the Cairns Group, Canada, the Nordic Countries, and Japan

The Cairns Group proposal outlined by the Australian Prime Minister in Geneva on October 22, and submitted on October 27 to the Negotiating Group on Agriculture, has been viewed by many observers as a compromise between the U.S. and EC proposals in addressing both the long-term concerns of the United States and the short-term concerns of the EC. The Cairns Group proposal called for three "inter-related phases."

1. The establishment of a long-term framework of revised and strengthened rules and disciplines for agriculture.
2. Aggregate support to be systematically reduced through the removal of distorting policy measures.
3. Immediate steps to be taken for early relief "from the severe distortions affecting agricultural trade."

All measures not explicitly provided for in the GATT, including variable levies and minimum import prices, would be prohibited. All tariffs on agricultural products would be set at low levels or at zero. All subsidies and other government support measures, except for such strictly defined measures as structural adjustment or direct income support not

⁸The two-price system refers to the fact that domestic consumer prices are traditionally higher than export prices. This system is maintained through import quotas and export subsidies.

improved rules for the liberalized trade environment being sought during the negotiations. Officials from Australia and Canada expressed similar concerns, stating that rules would be very important during any transition phase.

While some officials were concerned that the 10-year time frame suggested in the U.S. proposal would not be sufficient to achieve the substantial progress envisioned, others were concerned that the commitment for reform could diminish over such a long period of time. One official questioned the ability of developing countries to make the transition in that time without hindering their infrastructure development or ability to achieve food security. Another noted that certain developed countries would need more time to restructure their agriculture sectors, i.e., to make the transition from dependence on price supports and other protection to responding to market forces.

U.S. Efforts to Build Support in GATT

According to an Oustr official, U.S. officials have been meeting informally with representatives of other GATT parties on a regular basis. It views such bilateral meetings as essential to clarifying and building support for the U.S. position. The deputy chief of the U.S. mission to the MTN told us that some countries have formed small coalitions which meet on an informal basis to reach consensus on various issues. A USDA official noted that these group meetings, like the bilateral meetings, have been helpful because they are small and agreement can be more easily reached.

USDA and Oustr officials noted that the Cairns Group has been instrumental in moving the negotiations along. A delegation of officials from both USDA and Oustr visited 11 of the 13 Cairns Group countries in August and September 1987 to discuss the progress in the negotiations and to build support for U.S. objectives. Oustr officials also told us that they have had numerous conversations with Canadian officials. Officials representing the Cairns Group and Canada told us in July 1987 that they did not want to submit a proposal clearly in opposition to that of the United States.

Other Proposals and U.S. Reaction

The European Community submitted the draft of its proposal for liberalizing agricultural trade during the October 26-27 meeting of the Negotiating Group on Agriculture. At that meeting, the Cairns Group submitted its proposal and Canada submitted a proposal of its own. The Nordic countries submitted their proposal at the December meeting of

Prior to the informal meeting of the Negotiating Group on Agriculture in September 1987 to discuss the concept and uses of PSES, the GATT Secretariat had prepared a paper explaining the basic concept of PSES and issues that would need to be addressed in the negotiations. A USDA official told us that the meeting appeared to achieve its objective, which was to educate the GATT members on PSES and not to come to any conclusions concerning their use. According to both USDA and Oustr officials, the issue of PSES does not appear to have slowed down the negotiations. Many issues concerning PSES, such as how they are calculated, will need to be resolved, but there does appear to be a consensus and a willingness among GATT participants to work with PSES or some derivative as a measuring tool.

Decoupled Payments

Two issues surfaced concerning payments to farmers which would be decoupled from production. The first was the difficulty in defining what is a payment affecting production. Officials representing the Nordic countries, Argentina, and France believed that such payments could simply be a loophole for countries to continue their current practices.

The second concern of nearly all officials was the political feasibility of such payments. These officials stated that such payments, since they were more transparent and not provided as part of a number of different farm programs, would be perceived as welfare. It would be difficult for farmers to accept and it would be politically difficult to sell the concept to others.

A December 1987 study by Resources for the Future⁶ noted a potential difficulty with decoupled payments. Support for agriculture comes primarily from the taxpayer in the United States, but from the consumer in the EC and Japan. Decoupled payments would be a more transparent means of supplementing farm income, requiring increased taxes as budget outlays became necessary. The study suggested that it would be difficult for Japan and the EC to garner support for an agricultural policy reform agreement that would necessitate a tax increase.

⁶An independent nonprofit research and educational organization that analyzes a wide variety of natural resource issues. In 1984 it established the National Center for Food and Agricultural Policy which conducts studies on agricultural issues, including international trade.

Elimination of All Subsidies and Access Restrictions

The main concern with the U.S. proposal expressed by other GATT members centered on the elimination of all subsidies and access restrictions. The U.S. Ambassador to the MTN in Geneva told us that most countries were surprised that the United States had called for the elimination of all assistance to agriculture. While most country officials we met with agreed that assistance to agriculture should be reduced, officials representing the EC, Japan, and the Nordic countries did not believe that all domestic subsidies and import restrictions should be eliminated. It should be noted that the U.S. proposal called for the elimination of all subsidies and market access restrictions that distort trade, and had specifically mentioned that decoupled payments and bona fide food aid would be permitted.

The EC official stated that the objective of eliminating all subsidies and import restrictions was not only overly ambitious but also overlooked the fact that agriculture was different in the various countries. He noted that the U.S. proposal was calling for greater liberalization in agriculture than that which existed in the industrial sector. It went too far for the EC which, while willing to reduce price support and market access restrictions, was not willing to eliminate them. The official stated that this concern reflected social and political considerations more than economic ones. Delegates to the French and German missions raised similar concerns, adding that eliminating such supports was not politically feasible for the EC.

The Agricultural Counselor from Japan said that while Japan supported the elimination of export subsidies, it was not willing to go as far as the U.S. proposal because of what it believed to be the unique characteristics of each country's agriculture. The Counselor noted the need to consider the special characteristics of Japan, such as the scarcity of land and the need for food security and self-sufficiency. Because of these factors, Japan believed that some sort of domestic subsidy was necessary. The Counselor told us that while Japan was taking steps to reduce its supports, it would be politically impossible to eliminate all domestic supports and market access restrictions.

The spokesman for the Nordic countries told us that the U.S. proposal was extreme and radical. The group was against the elimination of domestic subsidies and access barriers for reasons similar to those of Japan. The spokesman stated that the Nordic countries were net importers and, thus, their domestic agricultural production did not distort international trade. Further, he believed that the United States must realize that all countries have a right to their own agriculture. He noted

agency staff agreed with the basic free trade goal of the proposal and that there were no major objections from other agencies to the proposal as presented.

According to a USDA official, the process for developing the U.S. proposal began even before the opening of the Uruguay Round at Punta del Este in September 1986 in that the cabinet-level interagency Economic Policy Council (EPC)² had been discussing the administration's objectives for the upcoming round of MTN. According to the USDA official, the objectives agreed to were in line with those presented by the United States to the Committee on Trade in Agriculture, including abolishing import barriers, subsidies, and other support programs.

Both the draft and final U.S. proposals were presented to the EPC for approval. The proposal was submitted to a June 18, 1987 meeting of the Agricultural Policy Advisory Committee (APAC)³ where members were informed of and voiced no strong opposition to its contents. The proposal was not presented to the Agricultural Technical Advisory Committees (ATACS)⁴, according to a USDA official, because U.S. officials wanted to restrict circulation of the proposal before the Geneva meeting. Also, they saw no need to present the proposal to the ATACS because it contained no commodity-specific provisions and the role of the ATACS is to provide technical advice of a commodity-specific nature.

Substance of U.S. Proposal

According to the U.S. proposal, the agricultural negotiations would be carried out in two stages. In the first stage, agreement would be sought on the policies and commodities to be covered by the negotiations and on a measure of the aggregate support that countries provide to their agricultural producers. The U.S. proposal cited the PSE as one possible measure. The U.S. proposal called for all policies which directly and indirectly affected agriculture, such as market price supports, direct

²The "core group" membership of the EPC consists of the Departments of Treasury (chairman), Agriculture, Commerce, Labor, and State, Council of Economic Advisers, Office of Management and Budget, and Oustr. Other agencies may attend EPC meetings depending on the issues being discussed.

³Authorized by the Trade Act of 1974 to provide advice and counsel to the administration for the conduct of the MTN, this advisory committee is composed of senior-level private sector agricultural representatives.

⁴The ATACS, like the APAC, were authorized by the Trade Act of 1974, to provide advice and counsel to the administration for the conduct of the MTN. There are presently 9 ATACS for the following commodity groups: cotton, dairy, eggs and poultry, feedgrains, fruits and vegetables, livestock, oilseeds, sweeteners, and tobacco.

Appendix II
Progress in the Multilateral
Trade Negotiations

the United States would like to proceed. In still other groups, it has submitted papers identifying problem areas or potential areas for consideration. It should be noted that there has been some limited mention of agricultural issues within these groups.

The work of the agriculture group is guided by a negotiating plan which calls for two phases of negotiations. The initial phase was to be completed by the end of 1987, but the second phase has no scheduled completion date. The initial phase called for countries to (1) identify major problems and their causes, (2) submit data on policies that affect agricultural trade, (3) consider basic principles to govern world agricultural trade, and (4) submit proposals. According to U.S. officials, GATT members agreed that these four efforts could be undertaken concurrently and that no agreement had to be reached—thus removing the possibility that the talks could be slowed down by having to complete one effort before undertaking the next.

According to the negotiating plan, the second phase was to involve actual negotiations on the various proposals. It called for efforts to reach agreement on (1) strengthened GATT rules, (2) specific multilateral commitments to be undertaken, and (3) an exchange of concessions. The United States had wanted this phase to be completed by the end of 1988. However, lacking consensus on this, there is no scheduled completion date. A “mid-term” review meeting at the ministerial level has been scheduled for December 1988 in Montreal, Canada. According to the U.S. Chief Agriculture Negotiator, the United States is advocating that the outcome of the second phase should be a framework agreement on agriculture and on any other appropriate areas.

Our discussions with U.S. officials in Washington and Geneva and with other country delegates in Geneva indicate that it is really too early in the negotiations to determine whether an “early harvest” is possible. It is clear, however, that this agreement would have to include more than just agriculture. According to the U.S. ambassador, other countries have stressed the need for progress to be made in many negotiating groups. The U.S. strategy is now to push for early agreement in several other areas as well as agriculture. An Oustr official noted that, although there were other high priority areas in the Uruguay Round, agriculture was probably the area in which the Oustr had invested the most effort.

During the initial phase of the negotiations, the agriculture group formally met five times; in February, May, July, October, and December 1987. It also met informally in September at which time the GATT Secretariat provided an explanation of the concept of Producer Subsidy Equivalents (PSEs).¹

¹As defined by OECD, the PSE is “the payment that would be required to compensate farmers for the loss of income resulting from the removal of a given set of domestic policy measures.”

Progress in the Multilateral Trade Negotiations

Under GATT rules which have evolved since its establishment in 1947, agricultural trade has received special treatment. In deference to the policies of many governments which have supported farm prices and incomes, GATT rules have permitted a wide range of nontariff barriers in agricultural trade, such as import quotas and export subsidies, which generally are not permitted for trade in manufactured products. During the current round of the MTN, these and all other domestic programs that have distorting effects on trade, are being discussed by the GATT contracting parties.

Background to the Current Round of Negotiations

In November 1982, a GATT Ministerial Declaration called for the establishment of the Committee on Trade in Agriculture (CTA) to make recommendations for achieving greater liberalization in world agricultural trade; in November 1984, the CTA recommended that:

“the conditions should be elaborated under which substantially all measures affecting trade in agriculture would be brought under more operationally effective GATT rules and disciplines...”

During the last 2 years, the major developed countries have increasingly recognized that domestic farm policies in many countries have been one of the principal causes of the global surplus of some basic agricultural commodities. The seven world leaders at the Tokyo Economic Summit in May 1986 signed a declaration stating that:

“We note with concern that a situation of global structural surplus now exists for some important agricultural products, arising partly from technological improvements, partly from changes in the world market situation, and partly from long-standing policies of domestic subsidy and protection of agriculture in all our countries.”

In September 1986, the new round of multilateral trade negotiations within the GATT was launched in Punta del Este, Uruguay. The Ministerial Declaration then recognized the urgent need to stabilize the world agriculture market and called for a greater liberalization of trade through

- improving market access by reducing import barriers;
- improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures directly or indirectly affecting agricultural trade; and
- minimizing the adverse effects of sanitary and phytosanitary regulations and barriers to trade in agriculture.

seriously discussed in the GATT. Consequently, if the U.S. negotiators achieve some degree of success in the negotiations, there might well be profound impacts on several commodity sectors as domestic support is eliminated or at least reduced.

Objectives, Scope, and Methodology

The Chairmen of the House Agriculture Committee and the Senate Committee on Agriculture, Nutrition, and Forestry asked us to monitor the agricultural trade negotiations being conducted under the GATT. We agreed to provide the committees periodic briefings and reports through the course of the negotiations.

Our primary objectives in this review were to monitor developments in the Negotiating Group on Agriculture of the GATT; to review the proposals submitted by the United States and other major players in that group; and to determine reactions to those proposals by U.S. administration officials, officials of other GATT members, and representatives of U.S. domestic commodity and farm groups. We also obtained information on events leading up to the present round of negotiations and on the issues involved, assessed the structure of the GATT negotiating process, and determined how the U.S. proposal was developed.

In monitoring developments in the Negotiating Group on Agriculture and to assess the structure of the GATT negotiating process, we interviewed officials from the GATT Secretariat and the agriculture division of the GATT; the U.S. Ambassador, Deputy Chief of Mission, and Agricultural Counselor to the MTN in Geneva; and delegates of permanent missions in Geneva from Argentina, Australia, Canada, Finland, Germany, Japan, and the European Community. We also interviewed officials from the USDA and Oustr in Washington and reviewed documents from the GATT, Organization for Economic Cooperation and Development (OECD), USDA, and Office of the U.S. Trade Representative (Oustr). We also attended the opening session of the present round of negotiations in Punta del Este, Uruguay, in September 1986.

To obtain information on events leading up to the present round of negotiations and on the issues involved, we reviewed extensive literature on the problems facing agricultural trade, including studies of the Congressional Research Service, the Congressional Budget Office, USDA, Oustr, and such private organizations as the Institute for International Economics, the International Agricultural Trade Research Consortium, and Resources for the Future. In addition, we spoke with representatives from several of these groups. We also reviewed numerous papers by

Introduction

A primary goal of the United States during the current "Uruguay Round" of multilateral trade negotiations (MTN) is to liberalize trade in agriculture. It is with respect to agriculture that U.S. officials first used the term early harvest, i.e., that there be some agreement among the contracting parties of the General Agreement on Tariffs and Trade (GATT) by the end of 1988.

On July 6, 1987, U.S. negotiators in Geneva submitted the proposal for liberalizing trade in agriculture to the Negotiating Group on Agriculture, one of 14 groups set up within the GATT for the Uruguay Round. The ambitious U.S. proposal called for eliminating, over a 10-year period, all market access barriers and all subsidies that distort trade. The proposal provided focus and momentum to the negotiations, and during the next several months, the European Community (EC), the Cairns Group, Canada, the Nordic countries, and Japan all submitted proposals in Geneva.

Pressures and Opportunities for Agricultural Trade Reform

In the early 1980s, world production of several basic agricultural commodities exceeded consumption, producing large surpluses. During 1981 to 1986, U.S. agricultural exports declined in both volume and value. The relatively poor export performance of the United States and the increasingly high costs of its domestic agricultural support programs were factors in the U.S. decision to pursue the liberalization of agricultural trade through the MTN.

The EC, a primary competitor of the United States in agricultural trade, has support programs which, like those of the United States, encourage production even when surpluses already exist. The EC's relatively good export performance during the early 1980s has been attributed largely to its export restitution, or subsidy, program. In May 1985, the Department of Agriculture (USDA) established the Export Enhancement Program (EEP), which provided government-owned commodities as subsidies to U.S. exporters to enable them to compete with the subsidized exports of the EC. Later that year, the Congress passed the Food Security Act, which not only expanded the EEP but also provided for lower loan rates to make U.S. agricultural commodity prices more competitive, thereby improving U.S. export performance. Both the EEP and other provisions of the Food Security Act resulted in the need for the EC to increase restitution payments to European producers, thereby raising the costs of EC support programs. Most observers, however, would agree that the decreasing value of the dollar during the last 2 years has had the most significant effect on the costs of EC programs. In any case,

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With the agricultural negotiations still at an early stage, domestic groups are taking a wait-and-see attitude. Despite some concerns, no commodity group appeared to want to undermine the position of the U.S. negotiators and so generally have not sought the removal of certain programs from the negotiating table. All commodity groups we spoke with, except for the dairy and cotton groups, believed that the United States would be competitive and could give up its support programs as long as other countries agreed to eliminate all of their trade-distorting programs. Despite these generally optimistic views, however, all groups stated that there was a lack of available information concerning how their groups would fare under a scheme to liberalize trade. Most groups we interviewed had not conducted studies analyzing the impact of reducing or eliminating subsidies and import barriers on their sectors and were not willing to commit resources while the issues were still theoretical and the outcome uncertain.

USDA and several agricultural trade analysts and economists have conducted studies attempting to determine the effects of trade liberalization, but information currently available does not conclusively indicate how particular commodity groups in particular countries would fare in a liberalized trade environment.

Observations

For the first time in the 40-year history of the GATT, its members are seriously discussing the reduction or elimination of domestic support programs affecting agricultural trade. The negotiations appear to be proceeding at a reasonable pace and, in fact, at a quicker pace than in previous negotiations, but many obstacles remain. Views vary widely over (1) the likelihood that the current negotiations will be successful and (2) the time frame for reaching some type of agreement. While most observers seem to agree that the U.S. proposal was a bold and good first negotiating step, others believe that a proposal with more modest and realistic goals would have been more appropriate.

The greatest divergence between the U.S. and European Community positions during the current round is the U.S. desire for a long-term solution and the Community desire for short-term measures, specifically, to reduce surpluses in the grain, dairy, and sugar sectors. It appears that both parties may have to make accommodations in this regard. Some agreement on short-term measures could be made contingent on an agreement on long-term measures. This seems to be the thrust of the

U.S. Proposal

The U.S. proposal was jointly developed by the U.S. Department of Agriculture (USDA) and the Office of the U.S. Trade Representative (OUSTR). The United States submitted its proposal in July 1987 and called for the elimination over a 10-year period of all agricultural subsidies that directly or indirectly distort trade and of all import barriers. Farm policies that provide payments to farmers without affecting pricing or production decisions (decoupled payments) and bona fide foreign and domestic food aid would be permitted. Also, worldwide health and sanitary regulations would be harmonized to prevent them from being used as non-tariff barriers.

Prior to submission of the U.S. proposal in Geneva, the Agricultural Policy Advisory Committee, composed of private sector agricultural representatives, was briefed on its contents. According to OUSTR officials, the Committee concurred with submission of the proposal to the Negotiating Group on Agriculture.

According to the U.S. proposal, the negotiations would be carried out in two stages. First, agreement would be sought on the policies and commodities to be covered by the negotiations and on a measure of the aggregate support that countries provide to their agricultural producers. The producer subsidy equivalent (PSE) was cited as one possible measure. The PSE is a concept used by the Organization for Economic Cooperation and Development in a February 1987 study which compared government assistance to agriculture across commodities and across countries. All policies which directly and indirectly affected agriculture, such as market price supports, direct income supports, and such programs as crop insurance, credit, and research, would be included. Second, GATT member countries would identify and agree to specific policy changes over a 10-year period so as to achieve their commitment to reduce overall support. Governments would generally retain flexibility in determining how to fulfill their commitments.

Ambitious, courageous, extreme, and radical were terms used by other GATT members in their initial reactions to the U.S. proposal. Most observers agreed that the U.S. proposal provided focus and momentum to the negotiations. The reactions to the proposal centered on (1) elimination of all subsidies and market access restrictions, (2) use of PSEs, (3) use of decoupled payments, and (4) lack of special and differential treatment for developing countries.

